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DEEPENING MALAWI'S MICROFINANCE SECTOR PROJECT (DMS) FY 2005 ANNUAL REPORT

OCTOBER 1, 2004 – SEPTEMBER 30, 2005



DMS-Led Training for FINCA Malawi Southern Region Supervisors

October 31, 2005

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

Abbreviations and Acronyms

AMAP	Accelerated Microenterprise Advancement Project
APIP	[European Union] Agricultural Productivity Investment Programme
BDS	Business Development Services
CAMEL	Capital adequacy, Asset quality, Management, Earnings [and] Liquidity
CBF	Capacity-Building Fund
CBS	Capacity Building Specialist
CGAP	Consultative Group to Assist the Poor
COMPASS	Community Partnerships for Sustainable Resource Management in Malawi
COP	Chief of Party
DCA	Development Credit Authority
DEMAT	Development of Malawian Enterprises Trust
DFID	Department for International Development (Britain)
DMS	Deepening Malawi's Microfinance Sector Project
EU	European Union
FINCA	Finance for International Community Assistance
GDA	Global Development Alliance
GoM	Government of Malawi
IQC	Indefinite Quantity Contract
IT	Information Technology
KRA	Key Results Area
M&E	Monitoring and Evaluation
MAMN	Malawi Microfinance Network
MARDEF	Malawi Rural Development Fund
MFI	Microfinance Institution
MIS	Management Information System
MIX	Microfinance Information Exchange
MoA	Ministry of Agriculture
MoF	Ministry of Finance
MoTPSD	Ministry of Trade and Private Sector Development
MOU	Memorandum of Understanding
MRFC	Malawi Rural Finance Company
MSB	Malawi Savings Bank
MSME	Micro, Small and Medium-size Enterprise
MUSCCO	Malawi Union of Savings and Credit Co-Operatives
NABW	National Association of Business Women
NASFAM	National Smallholders Farmers Association of Malawi
OIBM	Opportunity International Bank of Malawi
PIR	Project Intermediate Result
PMP	Performance Monitoring Plan
PMU	Project Management Unit
PRIDE	Promotion of Rural Initiatives and Development Enterprises
RBM	Reserve Bank of Malawi
RFP	Request for Proposals
SACCO	Savings and Credit Cooperatives
SALES	Support for Agriculturally Linked Enterprises
SEDOM	Small Enterprise Development Organization of Malawi
SO	Strategic Objective
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme

I. EXECUTIVE SUMMARY

This is the first-year annual report for the Deepening Malawi's Microfinance Sector Project (DMS) implemented by Chemonics International (CI) contracted by USAID/Malawi under the financial service component of the Accelerated Microenterprise Advancement Project (AMAP) Indefinite Quantity Contract (IQC). The Task Order #804 for this project was signed in September 2004 and this report covers the project activities undertaken during the period October 1, 2004 – September 30, 2005.

The overarching Results Framework objective that DMS will achieve is the deepening of Malawi's financial sector through expanding access to sustainable financial services for micro-enterprises and low-income households. It will do this through three project components:

- Improve the sustainability and outreach of MFIs through retail-level capacity building;
- Facilitate access to greater flows of commercial capital for financial intermediaries through targeted capacity-building, linkages and brokering;
- Contribute to a more enabling regulatory, supervisory and legal framework for microfinance.

Recently published donor guidelines on good practice in microfinance emphasized the importance of integrating financial services for the poor into the overall financial system of a country. Such inclusive financial systems are most effectively supported by providing demand-driven assistance at the micro (retail-level financial institutions and other providers), meso (financial infrastructure), and macro (enabling policy environment) levels. DMS operates at each of these levels to eliminate constraints and build institutional capacities to help increase the legitimacy and professionalization of Malawi's microfinance sector.

Although the project contract was signed in late September 2004, USAID and Chemonics mutually agreed to delay the mobilization of field personnel since the mission expected its FY2005 funding allocation would be tight. Chemonics was asked to prepare various budget scenarios through the first year of the project assuming a worst-case scenario that it might receive only a minimal level of obligated funds totaling \$700,000. A further assumption was that the initial obligation of \$500,000 that Chemonics received would need to cover expenses until the mission received its FY2005 funding, approximately in April.

After a thorough analysis, it was agreed that the field office would open in January at the start of the second quarter and that the hiring of one of the project's two technical professionals (local professional) would be put on hold until such time as the budget could accommodate him/her. The technical workload for this person, who was expected to handle legal/regulatory environment issues and commercial bank linkages, would be assumed by the Chief of Party (COP). It was further approved that because of budgetary constraints, DMS would provide all technical assistance through the COP at the meso and macro levels and the Capacity Building Specialist (CBS) at the micro level until funding levels permitted consideration of other options.

An initial first-year workplan covering the second, third and fourth quarters was drafted remotely and submitted on December 7 with the agreement that a more detailed workplan would be developed after the field office opened. The COP and CBS arrived in country in December and the field office opened in January. Initial months of the project focused on the startup process which included identifying and leasing office space and the COP's living quarters, equipping and staffing the office, and adapting Chemonics' standard project office operating procedures and policies to the local context. During this time stakeholders were consulted to inform the drafting of a refined and detailed first-year workplan

that DMS submitted on March 18 and which included a final performance management plan (PMP) containing appropriate and agreed upon baselines, indicators and targets.

By the end of the second quarter (March 31) the DMS team had introduced itself to most of the microfinance (MF) stakeholders in the sector and began to engage in technical activities with clients. A training needs assessment for FINCA was jointly conducted by the CBS and FINCA staff and capacity-building needs assessments of other institutions expressing interest in working with DMS were undertaken. At the meso and macro levels the COP held regular, consultative meetings with key stakeholders that catalyzed a sector-wide assessment and response to a large government initiative to create a new loan fund of 5 billion MK (approximately \$45 million USD) for micro and small businesses. The fund would be managed by a new government-owned apex structure and, if implemented, would triple the value of outstanding microloans in Malawi. However the published guidelines for the fund's operations do not meet accepted best practice standards and they are highly prone to political manipulation.

By the end of the third quarter, the field office accountant/office manager was able to assume more of the day-to-day administrative duties allowing the COP to devote more time to technical work. As relationships between DMS and project clients at the three levels of the microfinance sector (micro, meso, and macro) deepened and the project's demand-driven implementation methodology became better understood by clients, several submitted written demands for assistance that detailed their development needs. Formal decisions on the requests were necessarily delayed until the timing and amount of project funding was certain.

A timely second obligation of \$140,000 received on March 21, 2005 avoided the necessity to repatriate staff and close the field office. In April and May the mission and DMS collaborated on a proposal submitted to USAID/EGAT to receive money under the FY 2005 PRIME Matching Fund Program. The proposal was well received and notification was given in June awarding \$600,000 to the DMS activity, the largest single grant issued under the FY2005 PRIME program. The actual obligation of the PRIME funds is expected in October. This news was followed in July by the receipt of DMS's third obligation in the amount of \$550,000, expected to be the last non-PRIME funds DMS will receive until FY2006 mission funds are released.

Entering the final quarter of the year, DMS continued to accelerate the pace of its technical activities with the specific knowledge of its funding parameters and the flexibility to out-source technical support. Contacts with MF sector stakeholders multiplied and DMS assumed an increasingly integral role in the advancement of the sector as stakeholders' awareness of the project increased and its expertise and advice was solicited. In addition to direct technical support delivered by the CBS and COP, five persons from three MFIs were sponsored to attend in September a highly practical two-week MicroSave/School of Applied Microfinance (SAM) training in Kenya that entails follow-on implementation work in FY2006. Also, the COP and key delegates from Malawi participated in a microfinance policy workshop in Kenya sponsored by Women's World Banking and others. As the year closed, the COP played a key technical leadership role on the Steering Committee of the National Committee for the International Year of Microcredit (IYM) in Malawi. The culmination of the year will be a National Microfinance Conference scheduled for November 28-29, 2005.

With funding levels known, an MOU with PRIDE Malawi was signed in September and MOUs were drafted and in final stages of negotiation at year end with the Malawi Union of Savings and Credit Cooperatives (MUSCCO), Opportunity International Bank (OIBM), Finance for International Community Assistance – Malawi (FINCA) and the Malawi Microfinance Network (MAMN). These MOUs will serve as a basis for the FY2006 Annual Workplan.

II. ADMINISTRATION

First year administrative activities centered on the following:

- Revising the initial financial and technical proposal to match the reduction in obligated funding amounts and the expected timing of their release;
- Contracting and mobilizing the field office team;
- Identifying, leasing and equipping the office and the COP's living quarters;
- Putting into place field office operating policies and procedures and training local staff to ensure understanding and compliance;
- Establishing effective and efficient communication channels between the home office project management unit (PMU) and the field office personnel.

The PMU Assistant Project Administrator was in Malawi from January 8-22 to help with the office set-up and local recruitment. In addition, the PMU liaised with the project's three AMAP subcontractors included on the DMS proposal, Bankworld, Enterprising Solutions, and eChange, to keep them abreast of project developments and their likely roles as the situation evolved over the course of the year.

A. PERSONNEL

In the first quarter the two project expatriates, the COP (Victor Luboyeski) and the CBS (Teresa Maru), signed employment contracts with Chemonics. At the time, Mr. Luboyeski was working for Chemonics as the COP of the USAID-funded DynaEnterprises Project in Senegal that ended in mid-November. Mrs. Maru, a Kenya citizen, was a free-lance consultant working on a short-term contract for USAID's Sudan project managed by Chemonics. Mr. Luboyeski arrived in Malawi on December 17 and Mrs. Maru, relocated from her home in Kenya and began work in Malawi on January 1.

The local positions of accountant/office manager and driver were advertised in Malawi newspapers in December 2004. Interviews initiated in January led to a driver hired to start February 1st. However the accountant/office manager recruitment ran into substantial delays. After lengthy discussions, the first candidate and then the second both accepted DMS offers only to later change their minds when they received better offers elsewhere. Because the salary DMS offered was a significant increase to the amount in the project budget, the competing offers could not be matched. In March, the COP learned of a well-qualified candidate who had worked on a World Bank-funded IFDC project about to close. The candidate was interviewed, his references checked and he was administered Chemonics' standard field accountant test. After passing these hurdles, Mr. Stamalevi was offered the post in March and joined DMS on April 18th.

The arrival of Mr. Stamalevi freed-up the COP from the day-to-day finance and accounting responsibilities and office set-up that he had taken on since the start of the project. This allowed him to devote a greater percentage of his time to technical activities. In mid May, Robert Keating of Chemonics' field accounting division conducted a one-week field training in Malawi for the three Chemonics' projects in Malawi: SALES, FEWSNET and DMS.

DMS had to release its local driver/logistician person on May 7 due to sub-par performance. A replacement was quickly identified and contracted to start on June 2. He was later confirmed at the end of his probationary period.

B. LEASES & PROCUREMENT

Security is one of the most important considerations when selecting office and living quarters in Malawi since the US State Department ranks it as a very high security-risk country due to high numbers of random robberies and the ready availability of guns owing to the past war in Mozambique.

On February 1st, a lease on an excellent project office not far from USAID was signed within a mixed complex containing commercial enterprises as well as the Norwegian Embassy. An electrical generator for the complex ensures continuous power supply and office productivity during Lilongwe's frequent power cuts. The complex has excellent security 24/7 to protect project goods and staff. The office includes a large meeting/training room that was often used for stakeholder meetings and technical workshops over the course of the year, permitting DMS to save time and money by avoiding the rental of outside facilities. In addition, project clients frequently requested to use the room for their microfinance-related activities such as trainings and workshops, meetings of MF stakeholders, steering committees, and consultant debriefing sessions to disseminate findings to a wide audience. Indeed, the conference room facilitated the involvement of DMS in a variety of activities across all levels of the sector.

While it took slightly longer to identify and lease living quarters due to a scarcity of rentable homes, a suitable property was found in one of the three residential areas of Lilongwe that the US Government has given approval for its expatriate employees to reside.

The bulk of DMS procurement took place in quarters one and two. The PMU used the first quarter to procure and arrange shipments of USA-sourced computer equipment, start-up office supplies, and living quarters furniture. To save on transport charges, most of these items were co-shipped in one container from the USA along with the COP's consumable shipment. This container arrived about the same time that the leases on the office and living quarters were signed.

Locally procured items included one project vehicle and office furnishings and equipment. DMS agreed to purchase one vehicle ordered by USAID/Malawi's SALES project as well as locally-made office furniture SALES had ordered but did not need when that project was down-sized by USAID. This proved to be a win-win arrangement for both projects as much-needed money was released for SALES and DMS acquired goods it needed without the usual three to four month delay. As a result of this planning, cost savings were realized and the office was effectively in operation soon after the arrival of the COP and CBS.

III. TECHNICAL ACTIVITIES

The overarching objective of DMS is to deepen Malawi's financial sector and favorably impact the economic status and security of poor Malawian households. It aims to do this by supporting access to demand-driven financial services, helping to build sustainable financial institutions, facilitating the establishment of strategic alliances in the capital markets and assisting the government to create an enabling environment. DMS operates in a context where approximately 65% of Malawi's 11 million population lives under the national weighted average poverty line and an estimated 85% reside outside urban centers.

DMS project methodology combines a finance sector approach with one that considers rural agricultural finance value chains. It is market-driven with a focus on building local capacity to improve core competencies in the microfinance sector and supporting the development of a local microfinance

industry that can sustain itself in the long run. Three levels of the microfinance sector are targeted: (1) **micro/retail level**: aiding high-potential MFIs to meet their goals of sustainability, outreach, efficiency, etc., in a more effective manner; (2) **meso level**: building financial sector infrastructure, especially through local/regional support structures; and (3) **macro level**: aiding the establishment of an enabling environment.

The DMS workplan for FY2005 was developed in a two-phased approach. In the first quarter, prior to the opening of the field office on January 1st, a general workplan was developed that was refined and resubmitted in mid-March along with a detailed Performance Monitoring Plan. This two-phased approach in year one had several advantages. First, it guided initial start up activities and the relationships DMS formed with key stakeholders in the microfinance sector. Second, it allowed the project to be demand-driven and to develop specific activities suited to its initial findings in Malawi. Finally, it allowed the project to be flexible and to expand activities according to the availability and timing of obligated funds.

The initial project design planned that DMS would have a Capacity Building Specialist (CBS) who would operate primarily at the micro level and a second person who would support the meso and macro levels. However, the second person was not hired in year one due to the reduction in anticipated funding obligations. In the absence of this person, the COP assumed these technical responsibilities in addition to supporting the CBS.

Because of funding limitations, during the period from January through June all of the technical assistance that DMS provided was through the CBS and the COP. In the first three months of this time DMS focused on developing relationships with the microfinance stakeholder community including MFIs, consultants, Government of Malawi (GoM) entities, other projects and donors. DMS met stakeholders individually and in groups to share information on the project's scope of work and methodology and to identify potential areas of collaboration.

The pace of technical activity increased steadily over the course of the year as one-time administrative startup tasks were accomplished which freed up time for the COP and CBS to work on technical activities. In particular, the addition of the project accountant/office manager in mid April allowed the COP to increase his time spent on technical work. This coincided with project clients becoming at ease with DMS's demand-driven approach at which point they began to articulate their specific capacity-building needs and make written requests for assistance. The notification of the PRIME funds award \$600,000 and the arrival of the third funding obligation in July permitted DMS to move beyond the technical assistance supplied by the COP and CBS. The injection of these new funds allowed DMS to fund participation in a regional MF policy workshop in Nairobi and an important MicroSave training in Mombasa. It also permitted DMS to advance in its negotiations of Memorandum of Understandings (MOU) with clients because it clarified how much money was available for technical activities before the FY2006 mission funding was received.

Since the DMS project is designed to interact at all levels of the microfinance sector, the Technical Section of this annual report is organized into project activities taking place at the micro, meso, and macro levels of the microfinance sector. Progress was made on all three levels over the year and is described in detail below.

A. MICRO LEVEL

In Malawi the micro level of retail MFIs consists of wholly-owned government entities who dominate the sector and a small number of specialized MFIs and credit unions who account for about 50% market

share of all micro savings and loans outstanding. The DMS approach at this level consists of a combination of targeted technical assistance, customized training, generic “best-practice” training, and MFI assessments as precursors to full-fledged ratings.

Generally, compared to other parts of Africa, for example East and West Africa, Microfinance in Malawi is nascent, and lacks a widely shared understanding of best practices at all levels. This poses both challenges and opportunities: challenges in the implementation of best practices and opportunities to use lessons-learned from the rest of Africa to move forward the development of the sector in a more organized way and at a faster pace. The introduction of Deepening Malawi's Microfinance Sector (DMS) in this sense was timely since the majority of stakeholders DMS met were receptive to creating an inclusive financial system and building their institutional capacities.

A table listing the leading microfinance institutions, their legal status and market share is found below.

MICRO LEVEL MFI MARKET SHARE (at 31-Dec-2004)							
MF Providers	Legal Status	Savers			Loans		
		Number	Value (MK)	% (value)	Number	Value (MK)	% (value)
MSB	GoM Corporation	200,000	500,000,000	28%	0	0	0%
MRFC*	GoM Corporation	77,461	303,355,659	17%	77,461	1,129,609,183	51%
SUBTOTALS		277,461	803,355,659	45%	77,461	1,129,609,183	51%
OIBM	Bank	20,000	313,195,581	17%	3,152	143,793,309	7%
MUSCCO	Cooperative	51,000	535,547,462	30%	51,000	469,986,231	21%
PRIDE	Corporation	9,698	44,797,515	2%	9,698	168,903,305	8%
FINCA	Corporation	17,971	101,436,240	6%	17,971	248,878,009	11%
CUMO**	NGO	6,000	1,651,218	0%	6,000	30,000,000	1%
NABW	NGO	0	0	0%	0		0%
ECLOF	NGO	2,394	3,964,550	0%	2,394	18,963,039	1%
SUBTOTALS		107,063	1,000,592,566	55%	90,215	1,080,523,893	49%
TOTALS		384,524	1,803,948,225	100%	167,676	2,210,133,076	100%
(@125M K/USD)			\$ 14,431,586			\$ 17,681,065	
* MRFC data is as at september 2004 which is the time of their lowest portfolio outstanding in the year							
** CUMO figures reflect the peak period ending October 2004							

It should be noted that a peak time for loan portfolio size is the end of December in the midst of the principal growing season when the number of agricultural loans is at its maximum. For the majority of institutions recorded in the table above, the data was collected as at December 31, 2004. This contrasts with the monitoring and evaluation data recorded later in this report which is collected at the end of September, a time when microloans are at their lowest since farmers do not begin taking loans to purchase inputs for the agricultural growing season until October.

A.1 SECTOR-WIDE MFI CONTACTS

DMS met numerous times with all the major providers of microfinance services in the country through both individual meetings and during stakeholder gatherings or other events. These occasions provided opportunity for the DMS team to disseminate information on best practices and provide expert technical advice on internal and external challenges facing the MFI. For example, many of the discussions centered around an analysis of the government of Malawi Rural Development Fund (MARDEF) that was announced in the course of the year. After identifying the risks to MFIs of agreeing to the terms offered by MARDEF to participate in the highly-subsidized and politicized credit facility, all of the MFIs rejected

the conditions proposed. Unfortunately despite its objections, the GoM imposed the program on Malawi Savings Bank (MSB), a wholly-owned government entity.

Following exposure visits to MFIs, DMS received written requests for direct project assistance. In evaluating individual requests DMS gave greatest weight to MFIs that were committed to implementing best practices – especially financial self-sustainability, charging full-recovery interest rates and fees, transparency in reporting, operated as specialized financial institutions, willing to comply with USAID reporting requirements and agreeing to cost-share on the assistance provided by DMS.

Applying these criteria, DMS agreed to work with FINCA, PRIDE, MUSCCO and OIBM. The work that transpired is described below.

FINCA Malawi

Initial meetings with FINCA in January included the Regional Director based in Uganda. FINCA Malawi had been marginally meeting operating expenses month-to-month but it was not improving at a pace that was satisfactory to FINCA International. DMS was approached to provide capacity building assistance that would help it mirror the progress made by FINCA Uganda that recently transformed into a commercial bank with assistance from USAID's SPEED project. FINCA Malawi's Managing Director (MD) resigned in February and was replaced in the interim by an expat that stayed through July. DMS agreed to conduct a rapid training needs assessment of FINCA credit supervisors and regional managers in order to design and deliver a customized training for their branch managers, supervisors and head office staff that would address their major weaknesses. FINCA also requested DMS assistance to fund brief study tours to FINCA Uganda to observe and train on human resource and financial management and FINCA Tanzania to examine its micro leasing product for eventual introduction into the Malawi market. However, due to the low level of USAID funding, DMS was not able to fund these activities and FINCA supported them on its own.

DMS employed various methods to assess FINCA's training needs including questionnaires, focus group discussions (FGD), and process mapping. Both senior and mid-level managers were polled. This approach ensured that all staff was accorded an opportunity to identify weaknesses and the findings could be generalized across branches and regions. The questionnaires were open ended and focused on job tasks, priorities, job challenges and suggestions for job improvement.

Three FGDs were held: one with Credit Officers, one with Credit Supervisors and one with Senior Managers. The FGDs identified the performance operational gaps and identified options that could be employed to close the gaps. Many FGD participants admitted they had never been asked to participate in such an exercise and they welcomed it. One group found this exercise particularly stimulating and began to challenge one another positively, as demonstrated by someone remarking "now we are talking" and when asked to elaborate what he meant he responded "there has simply been no communication between these two departments, only finger pointing". The FGDs proved to be a technical assistance activity in and of themselves as staff began to see the potential for enhancing productivity if they communicated their concerns in an organized form without necessarily faulting specific departments when things went wrong.

The process mapping exercise highlighted a critical concern for all of the groups that there FINCA had system wrought with ineffective information flows as evidenced by frequently missing documents and long outstanding issues that had not been resolved for months. For this reason DMS worked with FINCA's department heads to map out how the information flow "should be" and also identified specific bottlenecks to address during the training. A key finding was that there was an inconsistent information flow amongst FINCA personnel that could be attributed to a weak appreciation for others' need for

information and its use. That led to communication problems, which impacted negatively on team work. The discussions also revealed a “disconnect” between individual perceptions and overall institutional perception. Other issues raised during the assessment were beyond training interventions, for example low salaries, inadequate capitalization and inadequate logistical support. FINCA management indicated that they were aware of these and were trying to find solutions, though its financial resources at the time were limited. DMS and FINCA brainstormed on issues of staff appraisals, turn over, staff development, training effectiveness and increased MF competition. It was mutually agreed with DMS that FINCA would tackle these areas internally, and would consult DMS from time to time on as needed basis. In the meantime, DMS would undertake to train supervisors in three groups based on regions: North, South and Central. Topics covered would include MF best practices, information management, competition, planning & communication. The training was experiential so as to allow participants to work through the sessions, identify issues, and recommend solutions for application on return to work. As much as possible “live” FINCA cases were to be used as a point of reference.

The first training for FINCA supervisors was held in Mzuzu with the objectives that supervisors be able to manage their branches based on business unit concepts, improve reporting accuracy and timeliness and increase credit officer productivity. The course topics included:

- Introduction to best practices and how these apply to FINCA
- Information management
- Managing People for optimum results
- Branch performance analysis
- Planning & Time management
- Communication & Team Building

The training raised several issues that will merit further follow-up. Among these were:

Many staff members were more comfortable discussing loan fund numbers as opposed to institutional profitability and finance; FINCA institutional values and culture were not easily articulated, understood and shared; planning was predominately a top-down process which constrained accountability for results; there had been few opportunities for FINCA staff to meet and interact at all levels with each other.

The second training for the Southern Region occurred in August over three days and was attended by twenty-two staff. Unlike the first training, senior representatives from all departments participated. This followed a suggestion from the first training where participants had felt that in order to plan the way forward realistically, all the departments should understand the challenges being faced by field staff, and subsequently take part in finding solutions. It was during this period that the new Managing Director arrived in Malawi to take over the running of the institution. He attended some of the training and assumed an observer role for the most part.

Following the two trainings, FINCA instituted some changes that addressed identified weaknesses. These included:

1. The process of managing information flow between branches, regional offices and head office were improved. A register was put in place to systematically track documentation and resolve issues as soon as they were raised in order to promote accountability at all levels;
2. The finance and human resources departments which had not been represented in the first training were represented in the second training as one way to try and build synergies between various departments. This also eased tensions between departments;
3. FINCA's staff orientation program was revised to incorporate issues other than lending methodology;

4. Both training sessions came up with action lists of things to implement back at their stations and these formed the basis of a joint follow up planned by DMS and FINCA to assess the impact of the training, and initiate a continuous change management process.

The COP met often with the interim MD to discuss DMS assistance efforts and succession planning issues arising from his replacement, the mid-year departure of Hendricks Napolo (Finance Manager) and the untimely death of FINCA's Operational Manager who passed away unexpectedly in June. Mr. Napolo was replaced by a long-time FINCA employee from South America, the Operations Manager was replaced internally, and the Acting MD was succeeded in August someone who held senior positions in commercial banks in Africa but had never worked for an MFI.

Work with FINCA had proceeded without a signed MOU to allow for internal consultations on the part of FINCA and a clear picture on the DMS obligated funding. Unfortunately, at the time of this report, the new MD for FINCA Malawi had not signed the MOU he was presented in early August, based on concerns centered USAID-required periodic reporting to DMS. He expressed reluctance in providing what he termed as "too much detailed" information and it is doubtful whether he will sign the MOU. If FINCA chooses to not sign the MOU, then DMS will have no option but to discontinue assistance.

Some quotes from FINCA Supervisors from Nkhata Bay, Mzuzu, Kasungu and the Northern Region after the DMS-led training:

"The training has really assisted me especially on timeliness; the disbursements are now on time, follow-up is consistent and as a result my staff is now happy with this turn of events."

"The big positive change I have noted in my branch is on time management and portfolio management; I now receive reports from the field on time, and we have managed to maintain our PAR below 3%."

"Outreach has improved and staff is starting to ask whether we are making profits."

"After the training I introduced appraisal of myself by my staff and it is amazing how this has enhanced our teamwork. We also started to monitor our costs against the interest income we generate at the branch even when head office does not send us our income statement."

MUSCCO

MUSCCO requested DMS assistance to help raise the level of competence of SACCO staff so they would better adhere to established operating procedures. The CBS met with MUSCCO's training specialist to map out areas of collaboration in staff training and development and she attended a scheduled training to become acquainted with MUSCCO's training operations. Based on her observations and examination of the schedule of classes offered in the current year, she noted the absence of formalized training modules, the presentation of generic training not specifically adapted to SACCO needs, and training conducted by an ad hoc mixture of MUSCCO staff. It was agreed that MUSCCO should systematically organize the training material into proper modules and manuals. MUSCCO also recognized that the quality of SACCOs varied widely and requested DMS assistance to establish and conduct a rating of SACCOs that would set performance benchmarks and help define, quantify, and deliver the capacity building assistance SACCOs most need. The CBS met with MUSCCO's Chief Auditor and reviewed MUSCCO's audit guidelines. While appropriate for settling account balances and producing financial statements, it will need substantial adaptation to serve as a rating instrument.

DMS participated in a regional conference on cooperative microfinance held in Lilongwe in May that was spearheaded by the International Cooperative Alliance (ICA). This conference brought together Cooperative practitioners and partners from six East and South African countries to discuss accounting and auditing effectiveness in SACCOs, capacity building and networking.

In June, MUSCCO held its annual general assembly (AGM) and invited DMS to make a presentation on the use of the rating instrument PEARLS and others. For the majority of SACCOs, institutional ratings

and its uses were new concepts, but MUSCCO members passed a resolution at the AGM and agreed to subject themselves to ratings in the coming year.

Meanwhile MUSCCO requested DMS sponsorship of two of its staff to attend a two-week MicroSave/School of Applied Microfinance (SAM) training in Mombasa, Kenya in September. This was a practical skills training based on CGAP and MicroSave Toolkits. MUSCCO envisioned that those participating in this training would come back to champion the branding and rating processes that were to be introduced shortly.

Having agreed in principle on areas of collaboration DMS drafted an MOU, which MUSCCO was studying at the time of reporting. MUSCCO's request for assistance listed the following capacity building needs for SACCOs:

- Governance and management
- Financial management with the introduction of a network-wide SACCO rating system and the development and implementation of a MUSCCO branding strategy
- Computerization and improvement of information technology for SACCOs
- Assist MUSCCO to work with the GoM to modify the cooperative law to create an improved legal, regulatory, and supervisory framework for credit unions.

PRIDE Malawi

PRIDE requested a meeting in July to discuss potential assistance from DMS. In it, PRIDE identified the following areas as requiring intervention which were incorporated into an MOU that was signed in September:

- Training needs assessment
- Systems optimization
- Institutional assessment as a preamble to rating
- Leadership & governance training
- Microfinance best practice training
- Board development

PRIDE had already undertaken some activities in system optimization and if DMS could respond positively, it could co-finance this activity and the others requested. In the case of system optimization, it was agreed that because CGAP had committed to paying professional fees of the consultant who had already started work, DMS would focus on supporting the procurement of the hardware. The procurement process had been started as at the time of reporting, and scheduled to be completed during the month of November. In terms of priorities training needs assessment was high but PRIDE would not be ready for a rating until late FY2006.

DMS began conducting a training needs assessment in August by designing two questionnaires. One targeted credit staff and another would be used to collect data about the overall systems in operations. Both questionnaires were reviewed by PRIDE before being distributed. In addition, DMS led two FGDs to further probe for challenge areas. Although begun, the assessment process was interrupted when two of PRIDE's key operations staff and DMS CBS attended the MicroSave/SAM training in Mombasa in September. However, it was mutually agreed that the training needs assessment would continue using the new process mapping skills acquired at the workshop.

Malawi Savings Bank (MSB)

MSB was mandated by the GoM to disburse loans issued under the MARDEF facility, despite its misgivings about the way it was set up to run. The CBS and COP met frequently with MSB to stay current on MSB and MARDEF developments and attempt to influence its implementation to incorporate

best practices as much as possible. About 200 million MWK in loans was disbursed through the end of September. All loans carried a minimum grace period of 3 months, with the first repayments coming due in September. The level of arrears will be closely watched by all. MSB is actively recruiting lending staff from other MFIs who were afraid of being severely crippled by the loss of key persons. PRIDE was one MFI who suffered, losing its best regional managers who resigned to take up an MSB position.

The MSB privatization program, supported by the World Bank, continued during the year. Malawi's Privatization Commission requested DMS assistance for MSB's computerization program but DMS declined and explained that it wasn't appropriate for DMS to build MSB capacity at the same time that the GoM ignored best-practices in dictating the methodology MSB must follow to implement MARDEF.

OIBM

Now in its third year of operation, OIBM submitted a written request to DMS to address organizational development/human resource weaknesses it identified in order to: build middle management knowledge and skills, develop staff performance objectives and quality service standards, improve treasury management, build microlending officer performance, and develop strategic plans to expand into rural areas in ways other than through conventional "brick and mortar" banking halls. By tapping into the Opportunity International network, OIBM had identified consultants and/or employees who can carry out the initial TA in most of the areas cited. DMS reviewed these needs with OIBM and determined what activities it could co-finance to ensure that the priority areas targeted for improvement are addressed quickly. These were incorporated into an MOU that OIBM was to sign the first week of October.

Over the course of the year DMS hosted training workshops in our training room. The first brought in the head of OI's bank in Montenegro to conduct a SME lending training. The second was an internal training for loan officers led by OIBM that looked at securitization issues: charges, registerable charges, debentures, bills of sale and farmers' stop-orders, floating and fixed charges, and charges on registered land. It also covered best business practices concerning: appraisals, outreach, customer satisfaction, portfolio management and delinquency management.

The CBS met with OIBM's Training Manager to consult on DMS's experience with training needs assessment tools and methodology. We recommended that the assessment should be interactive and use a mix of data collection methodologies to triangulate the results and lead to properly designed competency-based training.

Lastly, OIBM had sought and acquired a scholarship for one staff to attend the MicroSave/SAM training under AMAP funding for the event offered through USAID/EGAT. With DMS's assistance OIBM was able to send a second person from their individual loan department to accompany the group loan supervisor already attending.

Other MFIs

DMS held individual visits over the year with FITSE, CUMO, NABW and ECLOF to receive updates on their outreach and discuss DMS developments. For the immediate future, these structures will benefit from off-the-shelf training programs that DMS will offer to MF practitioners. However, because of the smaller size of their programs, the fact that they exist within larger multi-sector development agencies and are not stand-alone MF providers, DMS will not use its limited funds to provide customized technical assistance for them.

B. MESO LEVEL

The meso level relates to the overall infrastructure of the financial system which can either aid or obstruct the emergence and performance of MFIs. In the Malawi context this includes Malawi's Microfinance Network (MAMN), information systems, capital markets, donors, projects and consulting firms servicing MFIs.

DMS met often in individual and group meetings with the Malawi Microfinance Network (MAMN), donors active in Malawi microfinance, projects involved in rural value chains and other sector stakeholders. The meetings frequently included government representatives operating at the macro level, particularly with regards to discussions on the newly announced Malawi Rural Development Fund (MARDEF) and during Malawi Microfinance Stakeholder meetings.

MAMN

The Malawi Association of Microfinance Network (MAMN) is a fourteen member organization of organizations currently providing microfinance services or having provided them in the past and retaining and interest in the sector. It is a nascent network that has only one full-time treasurer/secretary and lacks a managing director. Therefore the board of directors and its working committees are entrusted to make all necessary- management decisions. The lack of a full-time manager has constrained the ability of the network to adequately play its rightful role of representing the interests of its members in lobbying the government and educating the public. In June a new team of board members was elected with greater involvement of the private sector members in the most senior positions. It is hoped that this change will empower the network to have a greater impact on the GoM to create a more enabling environment and cease programs, like MARDEF that negatively distort the market. MAMN presented DMS with a written request for assistance that will be incorporated into an MOU and signed in the first quarter of FY2006.

MARDEF

MARDEF is a new GoM initiative launched by the President of the Republic to make loans available to a majority of citizens. It was initially proposed during the 2004 presidential campaign and it steadily grew in size until Parliament increased the size of the fund to five billion MK (about \$40 million USD) in January 2005. If this amount would be disbursed, it would triple the existing volume of microloans outstanding in the country. Unfortunately the guidelines for the operation of MARDEF are seriously flawed and the whole process of loan application and approval are accused of being highly politicized. Most everyone believes that the money once disbursed as a loan, will never be repaid.

Over the course of the year DMS organized regular and often stakeholder meetings to openly debate the merits of MARDEF and its risks to the sector in general and MFIs in particular. DMS worked through the Stakeholders group who met in the DMS offices to encourage that the fund be set up in such a way as to not distort the market and to run it consistent with best practices. Key donors including UNCDF, UNDP, EU, DFID, and USAID were part of the discussions and supported the adaptation of best practices by the government. As a result, not a single MFI initially elected to participate in the program despite heavy pressure from the GoM. Nonetheless, MSB was told by the government that it had no choice but to participate under the terms it set. As of the time of the report, the disbursements from the fund were suspended by Parliament who accused the government of using the loans to set up a new political party established by the President. Stakeholders with DMS support continue to express their concern over the program to the government through the Minister of Finance. Recently it appears that this had some effect as the subsidized interest rates on MARDEF loans were announced to have been increased. While still not at commercial rates, the gap was narrowed.

APIP Final Evaluation

DMS met several times with an external consultant team contracted by the EU and the MoA to conduct a end-of-project evaluation of the APIP project. DMS provide reports and contact information to facilitate their evaluation. In the end, the consultants adopted a position recommended by DMS and advised the donor that they consider running capacity building money for the Malawi MF sector through the DMS project. Further, that any remaining loan fund be channeled through specialized MFIs and that future loans be cash and not “in-kind” packages of maize seed and fertilizer.

Ministry of Agriculture (MoA)

Gulden Bayaz & Andrea Pozza, Technical advisors to MoA, met frequently with DMS offices to discuss MoA and EU MF activities. Among other things they shared with DMS for our comments, a Terms of Reference they developed for a tender on a microcredit consultancy looking at failed agricultural credit programs in Malawi. After the award was made, DMS reviewed the initial report draft and hosted the debriefing meeting at our offices. We also commented to the TORs for an additional follow-on assignment.

Technical Service Providers

Besides the meetings noted above, DMS met with a number of local service providers who might provide future assistance to the MF sector through DMS subcontracts. The firms included Kadale, Promac, PJ Development Consultants, and Hyphen Media Institute. DMS was waiting to receive capability statements from these and others to compile a data base of available consultants. In addition, a Kenyan firms and several consultants who were approved MicroSave consultants who were in Malawi on assignment to OIBM stopped by the DMS offices to introduce themselves and discuss their capacities to support the DMS project. One of these firms was the founder of the School of Applied Microfinance (SAM) to which several DMS clients were sponsored to attend in September.

C. MACRO LEVEL

The most appropriate role of government is to aid the development of inclusive financial systems characterized by vibrant, sustainable MFIs by concentrating on creating an enabling environment. However, the GoM has taken on a much larger role than that as it not only sets the legal and regulatory framework but is by far the largest retailer of microfinance services in the country. And, if MARDEF is one day operational at the scale announced, its control over wholesale and retail microfinance in Malawi will be more than triple what it is today.

Over the course of the year, DMS has had a very significant impact on the level of shared understanding that most stakeholders have of Malawi's MF sector. The numerous stakeholder meetings and consultative meetings that DMS led were opportunities to take stock of the current situation in the MF sector and introduce how it might be improved if generally accepted best practices were embraced at all levels of the sector. Having said that, the governments' administrative branch chose to avoid these meetings which would have brought into question the politically-motivated policies it pursued in setting up the new MARDEF program. Nonetheless, looking back it is clear that a large number of key stakeholders now have a much clearer understanding of the MF sector and what it needs to develop sustainably and increase its outreach.

GoM Microfinance Policy Review

DMS was approached by the Ministry of Trade and Industry to solicit DMS support for a consultative workshop to revisit the GoM's Microfinance Policy Statement. While the policy statement exists, there is concern that it is not widely acknowledged and may not serve the purposes for which it was intended. The workshop brought together key senior stakeholders to review the existing document, comment to

its appropriateness and ways it might be improved. The participants decided that the MF Policy Statement was on the whole appropriate however it should be updated to incorporate the comments of participants and presented to Cabinet. Once approved, it should be published and disseminated to a wider audience to ensure its adherence.

Kenya Policy Workshop

DMS participated in a MF policy workshop in July that was organized by Women's World Banking (WWB), AFMIN (Africa Microfinance Network) and AMFI (Association of Microfinance Institutions, Kenya). The theme of the workshop was "Key Issues and Strategies in the Expansion and Consolidation of Microfinance in East and Southern Africa" with special reference to Ethiopia, Kenya, Malawi, Tanzania, South Africa, Uganda and Zimbabwe. It brought together more than 100 high level financial sector policy makers, senior microfinance practitioners and national and international development partners to address the following objectives:

- Analyze accomplishments and challenges in expanding access to microfinance services to all segments of the low income population.
- Share best practice in building domestic financial systems for microfinance.
- Develop shared country-level visions and strategies for microfinance.
- Build integrated teams of actors at country level who are committed to implementing the agreed strategies and actions.

Ten Malawians were sponsored by the organizers to attend representing Among these were Stewart Kondowe (SEDOM), Geoffrey Kumwenda (MRFC), Wilson Milonde (Reserve Bank), Emily Chimuji (MAMN), Alfred Vilili (Ministry of Trade & Industry), Tobias Chinkhwangwa (Reserve Bank), and K. Musukwa (NABW), Fumbani Nyangulu (MUSCCO), Honorable Belson Lijenda, MP Zomba, K. Msukwa (Ministry of Finance).

National Committee for the IYM and MF National Conference

The United Nations General Assembly voted that 2005 was to be designated the International Year of Microcredit (IYM). In recognition of that, the Malawi stakeholder meeting membership was expanded to form a IYM National Committee to help guide activities that support the development of Malawi's MF sector. A key activity that was planned was an National MF Conference to take place on November 28 and 29, 2005. The conference would take place with primary funding by UNDP and UNCDF and additional funding by DMS. The COP accepted to take the lead on the technical preparations for the conference which has as its title: "Building an Inclusive Financial Sector in Malawi". Up to one hundred and twenty high-level stakeholders are expected to attend to explore four themes: (1) legal and regulatory framework for MF and non-bank institutions led by the Reserve Bank of Malawi; (2) rural and agricultural finance led by MRFC; (3) best practices for microfinance institutions led by MAMN; (4) new markets in Malawi for rural finance led by AICC (Africa Institute for Corporate Citizenship).

IV. FINANCE

During year one, project start-up costs and the beginning of technical activities were key areas of spending. Project expenses are tracked against the three cost categories in the DMS task order: Labor, Materials, and G&A. The original budget for DMS in its first year was \$1,280,917 or 37% of the total contract value of \$3,477,056. The expected distribution across the three cost categories in the original first year budget were: 34% Labor, 41% Materials and 41% G&A.

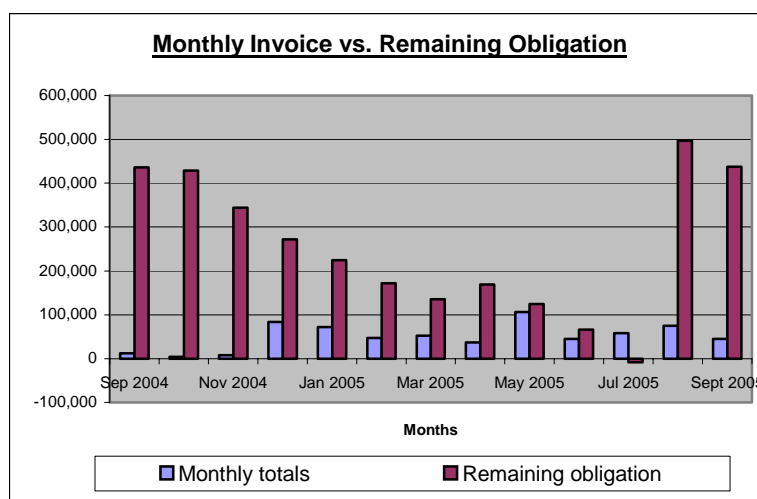
Because USAID obligated fewer funds than expected in the first year and their timing was delayed, only \$646,012 was expensed. Nonetheless, the actual spending across the three cost categories was proportional to what was originally forecast. Over the year DMS spent 17% on Labor, 20% on Materials and 20% on G&A; overall 19% of the contract value was expensed in year one. The implication of this is that, when and if the project receives its full funding, DMS should be able to gear up with adequate funds remaining in each of its line items to support the work it plans to carry out.

The breakdown of expenses by quarter and the remaining obligation is shown below:

Line Item	Quarterly Expenditures				Total Year 1
	Q1	Q2	Q3	Q4	
Labor	\$30,661	\$110,567	\$90,314	\$97,912	\$329,455
Materials	\$73,849	\$58,646	\$92,432	\$76,247	\$301,174
G&A	\$3,692	\$2,932	\$4,947	\$3,812	\$15,384
Total	\$108,203	\$172,146	\$187,693	\$177,971	\$646,012
Obligation Remaining	\$391,797	\$219,652	\$171,959	\$543,988	\$543,988

DMS started the year with an obligation of \$500,000, which was expected to last through Q3 of the project. In March of 2005, an additional \$140,000 obligation ensured that the project could keep working until the 2005 obligation of \$550,000 was finalized in July. As of September 30, the total of obligated funds received was \$1,190,000 with an additional \$600,000 in PRIME funds expected shortly.

As shown in the chart below, DMS came close to exceeding its obligation in March and July. In both cases, USAID obligations came through to ensure continued activities. As of September 30, 2005, DMS had spent or committed approximately 63% of its obligation. Outstanding commitments include one month of operations costs, repatriation costs for expatriates, severance pay for local staff, all outstanding contracts, including leases, fixed price contracts, and services agreements such as maintenance contracts.



PRIME Funding

USAID Malawi successfully submitted a request to USAID/EGAT to access PRIME funds for DMS. At the end of the fiscal year, we are expecting the final paperwork to be completed at any moment and an additional amount of \$600,000 to be obligated to DMS. It is noteworthy that this award was the largest single funding awarded under the PRIME activity in 2005. These funds should begin to flow by November 2005 and will support DMS activities scheduled to run through September 2006. Once received the total amount obligated to DMS will reach \$1,790,000. USAID advised DMS that it should not expect to receive additional obligations until the USAID Malawi's FY2006 funds are accessible, sometime before June 2006.

V. MONITORING AND EVALUATION

The information below is an analysis of the Performance Indicators (PIs) that are a part of the project's Project Management Plan (PMP). The indicator data are found in the annex to this report.

A. MICRO – INSTITUTIONAL LEVEL

On the micro level, the performance indicators (PIs) track the evolution of the financial strength and outreach of DMS client institutions using individual institution reports and combined reports measure the overall outreach of the sector. Although DMS held many consultative meetings with all the major MFIs over the course of the year, its most concentrated provision of assistance was with FINCA Malawi. In discussions with USAID, it was agreed that in this report that the only individual institution that would be required to report the full set of PIs would be FINCA Malawi. The others would be requested to report on only the sector-wide PIs.

For reasons described earlier in this report, an MOU with FINCA was not signed prior to DMS conducting the training needs assessment and designing and delivering training to FINCA's Northern and Southern Regional managers. However, at the conclusion of year one, the new FINCA Managing Director was resisting signing the MOU which required the submission of PIs because he did not want to provide them to DMS and USAID. As DMS is required to supply these same PIs to USAID as part of its contract, it has suspended further direct assistance to FINCA until such time as an MOU is signed. However, DMS was able to report on a certain number of indicators for FINCA that it learned about over the course of its work with them. (See Annex)

An analysis of the PIs that we have on FINCA highlights some interesting aspects of their performance. For example, in the past two years there has been a significant increase in the value of outstanding loans, but not in the number of borrowers. The large increase in loan value can be traced to a recent commercial credit line they received on a letter of credit from FINCA International and the disproportionate increase in loan value versus number reflects FINCA's introduction of an individual loan product that is much larger than their group lending product.

Savings figures for FINCA show a similar difference between increase in number of savers and increase in volume of savings. It looks as though existing savers already in the FINCA system increased the volume of their savings significantly. At the time of the baseline survey, FINCA had recently offset a large number of bad loans, severely depleting the savings program, which is in fact managed as a loan insurance fund. Therefore, it could be that the savings volume reported is reestablishing preexisting savings levels. On the other hand, the baseline survey did not request specific savings figures, instead asking for deposits as a percentage of assets. Since the FINCA savings are managed through a commercial bank, it could be that the baseline did not include all savings, which are now being reported for DMS.

Overall, the FINCA performance indicators available to DMS show significant growth in operations over the past two years. Given the level of assistance of the DMS team to FINCA field office operations, we expect that our impact on PAR, LLR, and ROA will be more clearly identified once FINCA begins reporting official numbers.

B. MICRO LEVEL – SECTOR WIDE

The sector level statistics of the micro indicators track the total loan value and number and savings value and number. In all four indicators, the sector outperformed the first year targets.

Outstanding loan value and total number of loans outstanding: Overall, outstanding loan value has increased by 48%, while the total number of loans outstanding has increased by 148%, which is well above the 10% target for each. This increase seems to show more, smaller loans to borrowers. In fact, APIP significantly influences this figure with its results. Baseline APIP figures did not include number of loans, though it showed 345,314,470 MK outstanding. In 2005 figures, there are 252,895,532 MK outstanding, with 72,066 loans. Removing the APIP figures from the calculation for the sector shows 65% increase in outstanding loan value, and 94% increase in outstanding number of loans.

The change in volume may also reflect increased market orientation by several organizations who have introduced new loan products in the past two years (FINCA, PRIDE). Another factor influencing these figures could come from the estimated number of loans for MRFC in the sector assessment report, which may have been underestimated. This would account for potentially 50,000 loans. Normally, we would have expected to see the increase in loan volume greater than the increase in number of loans, due to the advent of individual loans at a higher value. Other changes that influenced the total sector numbers include the fact that both PRIDE and FINCA have accessed commercial capital to increase their loan volume and previously inactive programs like SEDOM and MSB have resumed micro lending activities.

Finally, the value and number of loans outstanding as of September 30, 2005 should be compared with the figures for December 2004. In the primarily agricultural economy of Malawi, September is the lowest season for agricultural credit demand as farmers wait until the rains start in November and December to purchase resource inputs. The table below compares these two seasons, though some of the seasonal fluctuation has been lost in the institutional growth during the intervening months. In the first quarterly report for 2006, we will attempt this same comparison with September 2005/December 2006 figures.

SECTOR-WIDE MICROFINANCE INDICATORS							
MF Providers	Legal Status	December-04		September-05		Change in number of loans	Change in value of loans
		Number	Value (MKw)	Number	Value (MKw)		
MSB	GoM Corporation	0	0	1,016	187,646,746		
MRFC*	GoM Corporation	77,461	1,129,609,183	181,896	702,071,189	135%	-38%
DEMAT	GoM Trust	0	0	74	1,135,000		
SEDOM	GoM Trust	0	0	9,144	162,000		
SUBTOTALS		77,461	1,129,609,183	192,130	891,014,935	135%	-38%
OIBM	Bank	3,152	143,793,309	27,506	280,132,836	773%	95%
MUSCCO	Cooperative	51,000	469,986,231	19,564	393,429,188	-62%	-16%
PRIDE	Corporation	9,698	168,903,305	14,563	357,315,108	50%	112%
FINCA	Corporation	17,971	248,878,009	19,544	254,570,707	9%	2%
CUMO	NGO	6,000	30,000,000	6,836	17,951,000	14%	-40%
NABW	NGO	0		325	1,890,000		
ECLOF	NGO	2,394	18,963,039	4,424	25,796,389	85%	36%
APIP	Project			72,066	252,895,532		
SUBTOTALS		90,215	1,080,523,893	92,762	1,583,980,760	2%	23%
TOTALS		167,676	2,210,133,076	284,892	2,474,995,695	64%	-8%
MRFC data is as at september 2004							
CUMO figures reflect the peak period ending October 2004							

Number of depositors and total value of deposits mobilized: Again, deposits exceeded targets, with a 22% increase in the number of depositors and a 296% increase in the value of deposits. In this case, there is a large increase in the value of savings, with relatively less increase in number of depositors.

MUSCCO's volume of deposits shows a ten-times increase, whereas the number of depositors does not significantly change. Knowing that the institution has not grown significantly in member size, or in loan volume, leads us to believe that the baseline measure did not include member share value, whereas the current measure includes that number.

Similarly, FINCA baseline measure came shortly after a readjustment of loans, which may have significantly tapped savings, drastically reducing the number. Alternately, as noted above, FINCA keeps savings with commercial banking institutions, and may not have included those as a deposit count in the baseline survey. Finally, the MSB savings volume has tripled, whereas there is a 6% decrease in the number of depositors. These three institutions seem to have thrown off the scale of change for deposits vs. depositors.

This cycle of PI data gathering highlighted the capacity needs for the institutions in being assisted. In many cases, obtaining and verifying the accuracy of information required special interactions and efforts by MFI staff and DMS technicians. DMS training activities have focused to date on increasing the in-house capacity of institutions to improve operations and offer training support for their staff. These skills will impact performance of credit and savings management, and also institutional tracking and reporting capacity. The level of reliability and ease of reporting over the coming year will be an indicator of change within the management systems of the sector.

C. MESO LEVEL

Meso level indicators measure the change in the support environment for MFIs in Malawi. In particular, targets for Year I focused increasing networking activities between institutions and within the sector as a whole, including regulators.

The first indicator measures the level of information sharing and transparency between MAMN member institutions by tracking the level of reporting to MAMN as required by the network's Code of Conduct. However, it turns out that this reporting requirement is not noted in the Code and instead recorded in the minutes of a MAMN meeting. At that time members agreed to supply information on a quarterly basis. Despite this agreement, in 2005 no members submitted their performance indicators to MAMN though individually, each agree that it is important to do so.

The second indicator measures the number of MF stakeholder meetings held. The target number of meetings was four, and there were a total of twelve that were held. A large number of these were meetings of the steering committee that is organizing the national microfinance conference. There is broad representation of stakeholders on the steering committee and the topics discussed are contributing greatly to a deepening and shared understanding of Malawi's microfinance sector.

D. MACRO LEVEL

Macro level indicators attempt to measure awareness and dialogue around policy and regulatory issues. The target for the number of policy and best practice events was 4. Over the course of the year, there were 14 events. In July, several members of MAMN and GoM attended the Women's World Banking and AMFIN (Africa Microfinance Network) sponsored workshop in Kenya in July to discuss the regulatory environment and perceptions of microfinance across different countries. As a result of the dialogue that began in that workshop, another policy event was held in August in Lilongwe to discuss Malawi's National Microfinance Policy. DMS was a participant in that workshop and has been invited to contribute to the consultancy that will produce a revised and updated Microfinance Policy Statement.

ANNEX I: MICRO-LEVEL DMS PERFORMANCE INDICATORS

A. Micro Level: Promoting Strong Retail-level Institutions - FINCA MALAWI DATA											
Performance Indicators (DMS Clients)		Definition	Timing	Baseline Source	Sub-category	Baseline Value	Period: Oct.04 - Sep.05				Comments
							Target	Actual MK	Value USD	Achieved	
A1	Total value (cumulative) of loans disbursed	Cumulative value of loans disbursed, disaggregated by Gender (M/F) and sector of activity. (exchange rate on September 30 of each yr)	Qty	MF Sector Assessment Report	Total (male + female)	85,157,000	10% above sector assessment baseline	254,570,707	\$2,069,681	199%	1. Based on data from FINCA alone 2. Future baselines for additional institutions calculated at signature of MOU
					Male	851,570		2,545,707	\$20,697	199%	Based on approximation of 99% of FINCA clients as female
					Female	84,305,430		252,025,000	\$2,048,984	199%	
					% total lent to ag-related sectors	85,157,000		254,570,707	\$2,069,681	199%	Based on approximation of 100% of FINCA lending for ag-related sectors
A2	Cumulative number of loans disbursed during period	Cumulative number of loans disbursed, disaggregated by Gender (M/F).	Qty	MF Sector Assessment Report	Male	180	10% above sector assessment baseline	195	-	9%	1. Based on data from FINCA alone 2. Future baseline at time MOU signed 3. Based on number of borrowing clients for FINCA, no calculation of repeat lending to clients
					Female	17,846	10% above sector assessment baseline	19,349	-	8%	
A3	Number of depositors	Total number of depositors, disaggregated by Gender (M/F) and by savings versus loan guarantee deposits.	Qty	MF Sector Assessment Report	Total (male + female)	18,026	10% above sector assessment baseline	19,544	-	8%	1. Based on data from FINCA alone 2. Future baseline at time MOU signed
					Male	180		195	-	9%	
					Female	17,846		19,349	-	8%	
					Savings	18,026		19,544	-	8%	FINCA requires Loan Insurance and compulsory savings with commercial
					Guarantees	18,026		19,544	-	8%	
A4	Total value of deposits mobilized	Total value of deposits mobilized (savings or loan guarantees), disaggregated by Gender (M/F) and by savings versus loan guarantees.	Qty	MF Sector Assessment Report	Total (male + female)	6,656,700	10% above sector assessment baseline	110,154,000	\$895,561	1555%	1. Based on data from FINCA alone 2. Future baseline at time MOU signed 3. Savings calculated as .06% of total assets for FINCA, as described in Sector Assessment self-reporting
					Male	66,567		1,101,540	\$8,956	1555%	Assuming a 20% loan guarantee and remaining 80% of deposits as savings
					Female	6,590,133		109,052,460	\$886,605	1555%	
					Savings	5,325,360		88,123,200	\$716,449	1555%	
					Guarantees	1,331,340		22,030,800	\$179,112	1555%	
A5	Portfolio at Risk (PAR) ratio	PAR ratio = value of remaining principal on all loans outstanding with payments past due > 30 days divided by Gross Loan Portfolio.	Qty	Baseline at time MOU is signed	-	1.50%	Baseline for supported MFIs determined	-	-	Not Available	This baseline PAR is from FINCA's 2003 data as submitted in the Sector Assessment. The PAR when calculated to include less than 30 day delinquency is 99.95%
A6	Loan Loss Ratio	Value of loan principal written off in period divided by average Gross Loan Portfolio	Yrly	Baseline at first time LLR is calculated after MOU	-	Not Available	Baseline for supported MFIs determined	-	-	Not Available	At the time of reporting, FINCA had not signed an MOU and is unwilling to provide this data.
A7	Return on Assets (ROA)	Net operating income divided by Average Assets	Yrly	Baseline at first time LLR is calculated after MOU	-	-29%	Baseline for supported MFIs determined	-	-	Not Available	At the time of reporting, FINCA had not signed an MOU and is unwilling to provide this data.
A8	Number of new or improved loan products developed by project-supported MFIs	Designing and offering new and/or improved demand-driven financial services allow MFIs to improve client retention, diversify portfolios and expand volume of services.	Qty	Zero	-	Zero	1	0	-	0%	

A. Micro Level: Promoting Strong Retail-level Institutions										
Performance Indicators (DMS Clients)		Definition	Frequency	Baseline Source	Baseline Value	Period: Oct.04 - Sep.05				Comments
						Target	Actual MK	Value US \$	Achieved	
A9	Total value of loans outstanding in MF sector	Total value of micro credit loans at ALL MFIs reported in MK and also in US\$ converted at exchange rate on September 30th	Annually	MF Sector Assessment Report	1,837,905,606	10% above sector assessment	2,712,513,130	\$22,052,952	48%	Exchange rate applied \$1 = 123 MK
A10	Total number of loans outstanding in MF sector	Total number of micro credit loans outstanding at all institutions operating in the MF sector	Annually	MF Sector Assessment Report	154,222	10% above sector assessment	371,153	-	141%	Sector wide figures do not include outstanding MARDEF loans as information was not available
A11	Number of depositors reported in MF sector	Total number of micro finance depositors that have accumulated deposits as savings or as loan guarantees at all institutions operating in the MF sector	Annually	MF Sector Assessment Report	361,701	10% above sector assessment	439,499	-	22%	Disparity between number of new loans and number of new depositors reflects the introduction of individual loans by several MFIs that do not require savings accounts
A12	Total value of deposits mobilized in MF sector	Total value of deposits mobilized as savings or as loan guarantees, in the case of MFIs legally prohibited from mobilizing savings, at all institutions operating in the MF sector reported in MK and also in US\$ converted at exchange rate on September 30th	Annually	MF Sector Assessment Report	789,084,559	10% above sector assessment	3,121,410,097	\$25,377,318	296%	Target was largely surpassed due to very high savings amount mobilized by OIBM since the sector survey was done. OIBM is adding about 60 new savings account customers each day.

ANNEX 2: MESO-LEVEL DMS PERFORMANCE INDICATORS

B. Meso Level - Supporting Industry Infrastructure								
Performance Indicators (Clients)	(DMS	Definition	Frequency	Baseline Source	Baseline Value	Oct.04 - Sep.05		Comments
						Target	Achieved	
B1	Percentage of Malawi Microfinance Network (MAMN) members submitting performance indicators as stipulated in the MAMN code of conduct.	The percentage of MAMN members offering MF services that submit performance indicators on their institution's activities to the MAMN secretariat as stipulated in the MAMN members' Code of Conduct.	Annual	MAMN Survey at startup	Year prior to DMS startup	50%	0	PI reports not stipulated in Code. Although agreed to submit each quarter according to meeting minutes, none submitted since Dec 2004.
B2	Number of project-supported MFIs who pay part or all of the costs of a credit rating (each year)	USAID-financed MFIs will allow themselves to be rated using a MFI rating instrument such as MicroRate, Planet Rating, Accion International, or others.	Annual	MAMN Survey at startup	Zero	0	0	First rating expected to occur in DMS Project Year 2
B3	Number of MF stakeholders meetings held	MF Stakeholder meetings include broad representation from MFIs, parastatals, MAMN, reserve bank, Govt. of Malawi ministries, bilateral and multilateral donors, MF sector support structures, project staff.	Annual	MAMN Survey at startup	Zero at Project startup	4	12	Significantly surpassed target due in large measure to meetings in advance of MF National Conference
B4	Number of project-supported MFIs that successfully access commercial capital (cumulative)	MFIs who capitalize a portion of their loan fund from commercial sources	Annual	MAMN Survey at startup	Zero	0	1	FINCA

ANNEX 3: MACRO-LEVEL DMS PERFORMANCE INDICATORS

C. Macro Level - Fostering a Conducive Policy Environment and Ensuring the Appropriate Role of Government							
Performance Indicators (DMS Clients)		Definition	Frequency	Baseline Value	Oct.04 - Sep.05		Comments
					Target	Achieved	
C1	Number of DMS-supported MF policy and best practice events	DMS supported events could include such things as trainings, roundtables, conferences, stakeholders' meetings, etc... at which MF policy, MFI licensing, supervision, regulation, or best practices for an enabling environment are discussed.	Annual	zero	4	14	Includes 4 stakeholder meetings, 8 steering committee meetings for the MN National Conference and 2 policy workshops (1 in Kenya and 1 in Malawi)